

## Chapter 1.4

### Limited companies and multinationals

#### 1. Limited companies

- **Meaning** : business organisations that have a separate legal identity from that of their owners.
- **Main features** :
  - Limited liabilities : shareholders are legally responsible for the debts of a company according to how many shares they own.
  - The business raises capital by selling shares.
  - Shareholders receive dividend.
  - The shareholders elect directors to run the company.
  - Whereas sole traders and partnerships pay income tax, companies pay corporation tax on profits.
  - It is necessary to follow a legal procedure.

#### 1.1 Private limited companies

- **Features of private limited companies**
  - Shares can only be transferred “ privately” (from one individual to another).
  - All shareholders must agree on the transfer and they cannot be advertised for sale.
  - They are often family businesses owned by family members or close friends.
  - The directors of these firms tend to be shareholders and are involved in the running of the business.

**1.2 Public limited companies (PLCs)** : tend to be larger than private limited companies. Their shares can be bought and sold by the public on the stock exchange.

- **Going public can be expensive because**
  - The company needs lawyers to ensure that the prospectus is “legally” correct
  - The company must insure against the possibility of some shares remaining unsold, therefore, a fee is paid to an underwriter who must buy any unsold shares.
  - There are advertising and administrative expenses

### **1.3 Multinational Companies**

**Meaning :** Larger business with significant production or service operations in at least two different countries.

• **Key features of a multinational include :**

- **Huge assets (Land, building, plants machinery and money)**

: Multinationals are extremely well-resourced and can often afford to take on large-scale contracts.

- **Highly qualified and experienced professional executives and managers**

- **Powerful advertising and marketing capability**

- **Highly influential both economically and politically**

- **Very efficient since they can exploit huge economies of scales**

- **Ownership and control is centred in the host country**

